

Homeowner's Tax Reform Commission

Of the

Suffolk County Legislature

A meeting of the Homeowners Tax Reform Commission was held in the Montauk Point Room at Suffolk County Community College, Ammerman Campus, 533 College Road, Selden, New York, on June 26, 2006.

Members Present:

William J. Lindsay • Chairman/Presiding Officer SC Legislature
Lynne C. Nowick • Co•Chair/Legislator • District #13
Daniel Bahr • New York State United Teacher's Association
Celine Gazes • New York State Government Officers Association
Dr. Pearl Kamer • Long Island Association
Lisa Tyson • Long Island Progressive Coalition
Nicholas LaMorte • CSEA Region 1 President
Dr. Robert Lipp • Legislative Budget Review Office
Joseph Sawicki • Suffolk County Comptroller
Ester Bivona • President/Suffolk County Tax Receivers
Michael Bernard • Suffolk County Assessors/Town of Babylon
Patrick Byrne • County Executive Representative
Lorraine Deller • Nassau•Suffolk School Boards
Gary Bixhorn • New York State Council of School Superintendents
Thomas Kohlman • President/Suffolk County National Bank
Melvyn Farkas • Long Island Board of Realtors

Members Not Present:

Robert King • CPA, MBA, CVA

Also in Attendance:

Terrence Pearsall • Chief of Staff/Presiding Officer Lindsay's Office

Kara Hahn • Director of Communications for Presiding Officer Lindsay
Michael Cavanaugh • Aide to Presiding Officer Lindsay
Barbara Mussacchio • Secretary to Presiding Officer Lindsay
Greg Moran • Aide to Legislator Nowick
Christina Capobianco • Chief Deputy Comptroller for Suffolk County
Janet Ioli • Deputy Comptroller for Suffolk County
Harvey Levinson • Nassau County Assessor
Carl Laske • Counsel/Nassau County Board of Assessors
Randy Yunker • Nassau County Assessor's Office
Frank Mauro • Executive Director/Fiscal Policy Institute
David Sprintzen • Long Island Progressive Coalition
Ryan Contino • Student/Suffolk County Community College
Claudia Guerrero • Student/Suffolk County Community College
Scott Salimando • Candidate/New York State Assembly • 3rd District
All Other Interested Parties

Minutes Taken By:

Alison Mahoney • Court Stenographer

(* The meeting was called to order at 3:08 P.M. *)

CHAIRMAN LINDSAY:

Okay, I'm not going to wait any longer for the any of the other commission members. Maybe we could start by rising and pledge to the flag that I don't see, so in your imagination.

Salutation

Thank you very much. To the sparce audience that we have so far, this is the second public hearing will be later on after our working meeting, the working meeting is from 3 to 5, the public hearing is from 6 to 8. All our meetings are open to the public.

This is actually the third meeting of the Homeowners Tax Commission and we have a couple of presenters today and the first one with us is Harvey Levinson who is the Chairman of the Nassau County Board of Assessors, and

this is a subject that Harvey and I have talked about many, many times and he's very, very interested in. After Harvey, we do have another speaker after him, I do not see him here as yet. Harvey, the floor is yours, wherever you feel comfortable. This is a hand mike, if you wanted to talk from where you are, if you want to stand at the podium.

MR. LEVINSON:

This is fine. Good afternoon. As some of you may know, I am the Chairman of the Board of Assessors. I know you have a distinguished assessor on your panel, but what distinguishes me, I suppose, or I don't know if it's much of a distinction, I'm responsible for the entire County of Nassau Assessment System. It's unusual, it's an elected position and it's a County •wide position, and sometimes what you wish for you get and you say, "That wasn't such a great wish."

I was the former Chief Assistant DA under Dennis Dillon for •• I was with him for 27 years and I took an early retirement in 19 •• in 2002 and I ran for Chairman of the Board of Assessors. I got lucky, I won; the reason I won is that people didn't really know me, they really didn't know the other assessor too well, but they were upset with high taxes. The same reason that brings us here today is the issue of high taxes.

What I thought might be helpful is to discuss two general topics. The first general topic is the income tax and then also just bring up what's happening in Albany with regard to this new star rebate gimmick which we'll talk about; by me using that word, I think you'll know where I'm coming on that issue.

In the end of 2004 it became quite obvious to me that something was very broken in Nassau County, and what was broken in Nassau County was the fact that homeowners with the identical valued homes were paying dramatically different school taxes. Now, why does the assessor have jurisdiction of setting the value on your home? And theoretically, if we do a pretty decent job of setting the value, one would think that the problem of high taxes would be over in terms of unfairness, but as I dug deeper I realized that we faced a situation that was not fixable. So in '04 I was alone at this, I held a news conference, a few people showed up, very few people wrote about it. I said even if we can get the values correct, and I think now

in Nassau County, after three years of doing this, some by my predecessor and some by myself, we have gotten the values, I feel, to be reasonably accurate where the values in everyone's home, in my opinion, is within about 5% of what a home would sell for. And when we value property like you're doing now in Southampton, you do it based upon what a willing purchaser would pay for your home, that becomes the value of your home.

Unfortunately, in Nassau County they had to develop a bizarre system called fractional assessments where they assess property at only 1% of value and the following year, which is this year, they assess property at one-half of a percent of value, and this fall in the school year they're going to assess property at one-quarter of a percent of value. So we have made the entire assessment system, although it's market based, completely confusing because we send out a notice that the home that is valued at \$400,000 is only valued for tax purposes at a thousand dollars; who can understand that? Then you multiply it times an extraordinary high tax rate which, as the value of property dropped from 1% to a half of percent to a quarter percent, the taxable value dropped accordingly. So we have entirely lost the public, they have no understanding of the system, and I don't blame them, it's a damn complicated system.

Okay, so now we came on the point of examining the tax rates and yet I studied and studied and finally I said to myself this system can no longer be defended and the person who I think should speak out on that is the assessor, because I have all the detailed information with regard to assessments. And to put it in the most simple terms, I'd like you to compare a home in Levittown and a home in Island Trees. They are identical homes, they're both within the Levittown zip code, they both have a value, assuming for this argument, the same. The homeowner in Levittown pays 35% more school taxes than the homeowner across the street in Island Trees. Can I fix that? No. In part, that's due to a large Target store that is in Levittown but is not in the Levittown School District, it is in the Island Trees School District, in part it's on the number of children in the district, in part it's in the number of special ed children in any one district. There are so many different variables, but the bottom line is to the homeowner who's trying to make it from day-to-day, they can't because their school taxes are so high; but not only are they so high, they're

inherently unfair. You can talk till you're blue in the face, but I don't think you're going to convince anybody that the same home should pay 30 to 35% more school taxes than the identical home next door, it just doesn't make any sense.

So we •• I set out on a goal, some people called it a crusade, to end school property taxes as we know them in Nassau County, and that to replace them by an income tax and the school tax was single family •• for single two and three family homes, and there could be a debate whether two and three family homes get that benefit, would be taxed based upon the income of the person living or residing in the home; it would not be based on the value of the property. And if you would turn to your little handout that I gave the members of the panel, you will see a listing of school tax rates. It starts with Levittown and •• if somebody doesn't have a copy •• okay, if anyone doesn't have a copy on the panel, please raise your hand. Okay, we'll get you a copy.

You will see that Levittown's tax rate is \$409 for each hundred dollars of value. And if you scroll down to Elmont, Merrick and Island Trees in the middle of the page, you'll see little Island Trees with a tax rate of \$312; you multiply that times the value of the home and you see that you're about 30% off between one school district and the other. And this has perpetuated year after year, nothing to do with reassessment.

We're coming to the conclusion that the rates are inherently unfair. And if you look at the home, the last one, Manhasset, the Manhasset tax rate is \$173 times the value, the Levittown tax rate is 409; need I say more? This is an inherently discriminatory system that has to end because it can't be corrected by the assessor because if we have the value reasonably correct, the tax rates are going to be discriminatory.

So what I'm suggesting that this commission do, and I would like to compliment Legislator Lindsay for coming up with this concept to deal with a review of whether there should be alternative ways of funding for taxes. I met with Legislator Lindsay about a year ago, we discussed this topic and then he invited me to the Legislature office building about three months ago at a news conference in which he announced the formation of the

commission, and I'm honored to be asked to address the commission.

The homes that would be taxed on an income basis under my plan would be single family and two and three family homes, co•ops and condos which require a seat change in the way we value that property. All other property would be taxed as it is now, on a property tax basis. So homes in the Hamptons that are not owner•occupied living there but they're summer homes would continue paying a property tax. Commercial property would continue paying a property tax. Utilities would continue paying a property tax. People who are snow birds and go to Florida, continue paying a property tax. But basically for the middle class and the upper class who live in their home, there would be no property tax as we know it.

From a political point of view, I don't believe you could sell this idea unless the public understood that we were going to eliminate the school property tax. I'm not talking about lowering it, I'm not talking about making accommodation, I'm talking about ending it. And this could be a very •• this is a politically very touchy subject. I forgot to bring the sign, but last November I got involved in the political campaign and the Monday before Election Day they tell me 50,000, 40,000, I don't know, signs went up on every telephone pole in Nassau County, "Stop the Levinson income tax proposal." Now, they did mention Tom Suozzi's name, although he's never spoken out on the income tax so I don't know how he's named there on the poster, but there I was. All commercial property taxes would be the same and traditional apartment houses would be the same.

But I have another controversial proposal; you have the Smithaven Mall, we have Roosevelt Field. Right now the Roosevelt Field Mall pays all their school taxes to see Uniondale and to Garden City where I live. I'm not too popular in Garden City probably as I'm saying this, but I believe that those taxes should be shared by every school district in Nassau County. And I would restructure, if we had an income tax, restructure the commercial tax base that every business that develops in Nassau County, and if the idea has merit in Suffolk County, every business would pay the same tax rate. I think it's unconscionable for businesses to pay different tax rates because businesses don't use the schools, they don't get any benefit out of being, quote, in the better school district. And the tax rates can vary greatly from

school district to school district for business taxes, and I think we have to give serious consideration for doing the same for businesses as we do for homeowners.

In one of the school districts, there's a chart here in your packet that talks about commercial tax rates; look at Valley Stream, 24.

If someone has a gas station there, they're paying \$823 for each hundred dollars of gas station value, and if you go down to, for example, Garden City which is where I live which is about ten from the bottom, it's a lovely community, there's only one gas station that I'm aware of; that gas station pays a rate of \$324. This business of businesses paying widely different commercial taxes must stop. We must encourage development on the Island, and in my humble opinion the way to do that is to not only make it fair for the middle class but make it fairer for businesses. So I would like to see one tax rate for all business on all commercial property. I thought this was simple, but I am being deluged with people from Uniondale •• question?

MS. GAZES:

Yeah, what would be the basis for distribution of the commercial tax?

MR. LEVINSON:

That would be up to the commission or to public discussion. But however, if you ask me the way I would do it, where the property is located, say Roosevelt Field, the community where that school district is in should get a disproportionate higher amount than the other districts. However, I'm quick to say Carle Place does not get a penny from the Roosevelt Field district, but they get all the aggravation from Roosevelt Field. So to say that the school district by accident of geography is the only one that should get the money I think is wrong because the school district in Uniondale, as it turns out to be, is so far removed from Roosevelt Field you wouldn't even know Uniondale is there because it's on the other side of Hempstead Turnpike, for those of you who know the Nassau County geography.

So my goal is eliminating the school property tax, replacing it with a modest income tax, I'm just going to throw out a rate and then we'll talk about it, three and a half percent, all commercial utility properties would continue

paying property taxes, it would be one tax rate for all businesses, development would not be stymied by the fact that they're in a high tax district. All school districts under my plan would have the same tax rate; this is somewhat controversial, I suppose. The reason I believe you have to have it County wide and why I'm so happy to be in Suffolk County, if this is going to work in my opinion it has to be bi-county, or it should be bi-county. It should be a bi-county approach, all the rates in Nassau County should be the same and all the rates in Suffolk County should be the same. Ideally they would be the same but they may not wind up being the same, but they're going to be •• but they would be very, very close. So you take the tax rate, say three and a half percent, and you multiply it times income and that's how much a person would pay.

If Bill Lindsay, some rich guy like he or Bill Gates decided to buy in Brookville •• he's smiling, it's hard to get him to smile •• if you •• and Lynne is smiling, she's also rich, right? And Bill Gates moved to Brookville, his income alone on an income tax could probably support most of the Brookville School District, that's unfair and it's unwise because wealthy people would not leave •• would come to the County. As a matter of fact, a large criticism of me from political people has been that the business community would not like an income tax. However, I believe there should be a limit on the wealth of how much is taxed, and I'll just throw out a number; a million dollars or less you pay your full freight, a million dollars or more there would be a reduced rate or perhaps low rate at that point. Because it isn't right to ask one person to support or have a substantial impact on one school district, but they should pay a lot in taxes but I don't think they should pay the full freight on every penny that they earn. But of course, that's what the commission would have to do. I believe there should be a floor established so that if the taxes •• if the owner of a home made \$20,000 Social Security and a little pension, they probably should pay very little school taxes, so there would be a limit at the bottom side and a limit at the top side.

Now, this is also very controversial. I said publicly last fall that if we go to an income tax we will not need the STAR Program anymore. Why won't we need the STAR Program anymore? Because the bill is going to be zero. So when I said that, people on the political aisle said, "Levinson wants to take

away Senior STAR credits." What I said was if the bill is zero, there is no necessity for a STAR credit. Now, what are we going to do with that money and what are we going to do with all the State aid money if you go to an income tax? If you think this through, you'll soon come to the conclusion that districts like Carle Place and Roosevelt in Nassau County and your low wealth districts may not raise enough money by the income tax. Why? Because their income level is lower. So how do we help with that? All of this bucket of money that Suffolk and Nassau get for STAR credits and all of the State aid is already appropriated by the State Legislature. But again, not being popular in Garden City, Garden City would get zero State aid because they would have so much income coming in from their high wage earners, they wouldn't need the State aid. There's no STAR money being paid, so that could help to supplement the income tax where it doesn't produce enough revenue.

Now, some school districts will actually collect more money in the income tax than they would under the budget proposal, districts like Great Neck and Roslyn might. That should go into a reserve account, in my opinion, and should require special requirements for taking and dipping out of that money because that's for a rainy day. And of course, I said we're going to share the commercial taxes among all the school districts. One of the reasons why we have this hodge podge of rates is some districts have no commercial property like North Merrick and some districts like Manhasset have huge amounts of commercial property.

What are the advantages of an income tax? Homeowners can make home improvements and they would see no additional school property taxes. Mom and Dad could move into the home, they could build a room or an addition, it would help the home improvement industry because they would have no impediment or no decision, "I don't want to do this because I have to pay higher school taxes." This whole business about challenging tax assessments, the entire bureaucracy of the assessor's office attempting to go administer these STAR programs and all these exemptions for residential homes would be substantially reduced. The County refunds on residential properties would drop to almost zero because people will no longer challenge their residential assessments, and why is that? Because they're only going to be a third of what they're presently paying. These companies and

lawyers that champion these cases will not be able to make enough money to make it worth while and the tax bill will be low.

It is not a New York City model, but it does mirror New York City in one area. In New York City, if you look at the Times on Sunday, you will see that the home prices, in multi-million dollar homes pay what a home that's worth maybe seven or 800,000 in Nassau and Suffolk would pay. Their school tax burden is tremendously low. Young people coming to buy a home in New York City do not have to take into consideration the taxing, they don't have to fund an escrow account because there's no high taxes. New York City has something that I'm very jealous of, they have low property taxes, number one, and they have very good public transportation. We have a poor public transportation system, high property taxes requiring two cars for almost every family; it's a disaster for traffic and for high taxes.

The homeowners will be less likely to rent illegally because we won't hear the people saying, "The reason I rent illegally is because I need the revenue." If you have low school bills, you will not need •• you will not need that revenue. But most importantly, you're going to be paying on your ability to pay. I would like to say I believe it borders on immorality, immoral, to maintain a system to tax people based upon the value of their home. Years ago would only wealthy people and upper middle class own property and the taxes were modest, we could deal with it, today we can no longer deal with it.

So if you join with me you're going to say to yourself there's something wrong, to the degree that it's actually immoral to tax people based upon the value of their home because there is little relationship on homes that are valued under a million dollars. And all that you see is high priced homes; most homes are valued in the tax at less than a million dollars. And someone whose value is 900,000 and someone down the street is 800,000, does that mean the person with the \$900,000 can pay 10% more, or if someone is valued at nine and six that someone can pay a third more? I say no. First of all, many of these homes are occupied by seniors, people on middle income, people who like to start out and it's simply wrong, it's unconscionable, it's immoral in my humble opinion to value people based upon the value of their home. Don't worry, Mr. Assessor over there who's

hiding, you're not going to lose your job because we're going to maintain the values for the County and town taxes.

What I neglected to tell you is that everybody will pay their County and town taxes as they're presently paying them; that will reduce everyone's tax bill in Nassau County by two-thirds. So everyone's bill over night will go down. You will then pay it in income tax, it will be held from your paycheck and significantly renters as well as owners will pay some type of income tax. There may be a credit or a deduction for the renters, but everybody will pay who earns a wage. This will encourage people to stay in the County, to be able to buy a home because they won't be saddled with these gigantic school taxes and they won't be saddled with trying to put money in an escrow account. I know there's a banker here who likes escrow accounts, probably used to make a lot of interest on it, now they're just a pain I guess.

So that is in a thumbnail sketch, and I'd like to take some questions from the floor, where I believe we should go. Now, here's some good news; I think Bill Lindsay and Lynne and others in your County who had the political will to establish this commission, just two nights ago the State Senate passed unanimously, I think one dissent, a vote to create a State Commission, in effect to study what your commission is doing. They up until last week thought that I was just a crazy guy, I don't take full credit for it, I'll give it to Bill, but you guys were behind this, you stood with me. And as a result I think it's remarkable that the Legislature has created a commission to study it and Senator Bonacic and another Senator have actually introduced a bill on the income tax.

Now, their proposal is something I would not on its surface support because it gives the school district a right to sign on, and that would mean in Nassau County Levittown could have an income tax and Island Trees would not have it; I think it would be chaotic. I think, in my humble opinion, everyone has to pay the same rate, otherwise a middle income person, a nurse or a school teacher would pay one rate living in Westbury and another rate living in Carle Place; we want to get away from that. So in order for this to work, the commission would have to say it should be studied and maybe supported, one tax rate, everybody pays the same tax rate. And one of the

more difficult questions which I'll answer in the question and answers, how do you define income; that is perhaps one of the most contentious issues out there and I'll explain why.

The other issue I wanted to talk about is the STAR rebates. I think you all read in Saturday's Newsday, there was a front page cover story. What you didn't read is that how it's going to vary from community to community. It's a very serious problem and the Legislature is not making it known publicly what's going on. In Nassau County you will get a basic rebate in Great Neck of \$139, someone in, for example, Hewlitt•Woodmere would get \$278; the rate will vary from school district to school district.

Even more troublesome, the enhanced STAR rebate that's going to be mailed out to people who are low income, those rates will vary from 233 to \$660 in Nassau County. The Legislature is talking about averages; to me that's misleading, talk about what the person is going to receive. And someone has to have the will to say that someone in Hicksville is going to get 183 and someone in Levittown is going to get 348.

The formula is so complicated it cannot be understood, but the bottom line of the formula is produced widely different rates and most disturbing, Westchester County is getting 50% more than Nassau. We haven't looked at the numbers for Suffolk, but preliminarily they look to be the same. So homeowners in the two highest tax places in the State are receiving 40 and 50% less than homeowners in Westchester County. And this is going to be a real nightmare for the assessors because they're going to be mailing out checks two weeks before Election Day that everyone is going to get, some people will not get the right check, there will be all kinds of angst, I predict, hopefully it will work well, but I •• 300,000 checks are going out, by the •• excuse me, three million one hundred thousand checks are going out and it will cost the State Legislature about \$5 million to process and mail this stuff out. I don't know about you, but I can think of a better way to spend \$5 million. You mail the rebate check and then you say, "Well, Levinson, how are they going to get their money?" It is so simple; everyone gets a school bill and on the school bill is a line for the credit on your STAR, just increase the credit.

I had a candid conversation with an unnamed Legislator, he said to me,

"Harvey, that's a great idea, but we won't get the credit, we will not get the credit." So in order to get the credit, they're mailing out three million checks. The checks vary from pennies to six or \$700 and I think they have created another bureaucratic monster. So I would like to take a little break and take some questions from the floor.

CHAIRMAN LINDSAY:

I want to open it to the commission members ••

MR. LEVINSON:

I meant the floor of the commission members.

CHAIRMAN LINDSAY:

•• and then I'll be happy to answer, have anybody from the floor.

Legislator •• I'll get you, Pearl, but Legislator Nowick had a question.

LEG. NOWICK:

Harvey, thank you for explaining that in such detail. Just a few questions I had. You did make the comment and you said every wage earner will pay; did you mean every wage earner that is the owner of their home or just every wage earner?

MR. LEVINSON:

Well, every wage earner who lives •• who's the owner of the home.

LEG. NOWICK:

Okay.

MR. LEVINSON:

Now, it's unclear whether it would just be the husband and wife who are the owners or whether it would be others. Clearly renters would pay some type of income tax. One of the questions the commission would have to look into if they felt it had merit, who would be excluded from paying? For example, I raise an issue, if a teen•ager works at McDonalds, would his income ••

LEG. NOWICK:

Yes.

MR. LEVINSON:

It doesn't have to be, you could exclude people under 21. But remember, that teen•ager at McDonald's wants to stay in Suffolk County and we're going to need revenue to support the schools. These pennies and nickels that we get, it may be a wise thing to do and it may not be a wise thing to do.

LEG. NOWICK:

I was just curious, now a days a lot of younger children are living in their parents home, they do work; will they be paying income tax for the school district?

MR. LEVINSON:

Not •• well, it all depends how the tax would be structured. I mean •• oh, by the way, what really has to come out of this discussion is a real high level meeting in Albany, not necessarily in Suffolk County, to work up the numbers and to include, exclude and to work up how you would go about doing the taxation. One thing when people turn to me with all the answers, I don't have them but I thought it through and I'll offer my suggestions.

LEG. NOWICK:

The other thing I wanted to ask you, as an example you used the mall at Smithaven.

MR. LEVINSON:

Which case?

LEG. NOWICK:

The mall at Smithaven.

MR. LEVINSON:

Yes.

LEG. NOWICK:

And I know half their ••

CHAIRMAN LINDSAY:

Why don't you come up here and then I'll pass this along, because some people are having trouble hearing.

LEG. NOWICK:

You mentioned the mall at Smithaven and you said that those taxes would be divided among all the different districts. Because I happen to live in Smithtown ••

MR. LEVINSON:

School districts.

LEG. NOWICK:

Yeah. I happen to live in Smithtown, so that's the only thing that we have, but did you mean the mall and all commercial •• all industry?

MR. LEVINSON:

I mean all, every commercial property would be looked upon as County revenue source, it would be divided among all schools district. Going ahead, which I haven't talked about, I made a proposal that town taxes, if this works, should follow the same model. In Nassau County we have all these special districts and if you don't live within a district you don't get a penny. Let me give you the best example; we want to develop the hub in Nassau County. What would that mean if we developed a hub? Uniondale and the Uniondale Fire department would have no taxes residentially, so they're the only one that would get the credit, get the value. So we have to keep an open mind how we're going to spread this around.

LEG. NOWICK:

Distribute that.

MR. LEVINSON:

How to distribute that.

LEG. NOWICK:

So the Hauppauge Industrial Center, rather than going to Hauppauge School District, would be spread throughout.

MR. LEVINSON:

Right. I don't necessarily mean that Hauppauge would lose anything.

LEG. NOWICK:

I'm using that as an example.

MR. LEVINSON:

Right, but the initial feeling of many people, when we went to Hicksville they were throwing darts at me because I said Hicksville has the old Gertz Mall, "Well, are we going to lose that, and I said, first of all, you'll get a higher percentage, but you're going to pick up Roosevelt Field and all the other malls, when the numbers are in, if you go to an income tax, combine it with merchant and commercial, I think it will work fairly. Now, of course, the devil is in the details and it requires more than just a formal discussion, it really requires some hard numbers.

LEG. NOWICK:

It sounds like you worked it out. Just the last question, I can't help thinking how come 50,000 people put up signs against this; what am I missing?

MR. LEVINSON:

Oh. Well, first of all, these were paid people, these were political people, these were not people who ••

LEG. NOWICK:

Oh, okay.

MR. LEVINSON:

These were all political operatives who posted signs. As a matter of fact, my wife was taking a French class and I was running for election last November and her French teacher came to class with her heart pounding and said, "I was driving up the street and what the sign was, it was a stop sign put on a telephone poll to stop the Levinson income tax," and the French teacher thought it was a real stop sign so she put her foot on the break and nearly caused an accident, but it wasn't a stop to stop there, it was a stop Levinson talking about the income tax. So it's a very emotional topic.

And I understand, political people feel the public won't support it, but I know from doing the research that we've done and I think you'll get a sense of it and it would never have passed in Albany last night or three nights ago unless the public also feels it should be reviewed. I think we're out of the woods in terms of we can now talk about it.

MR. BERNARD:

Bill?

CHAIRMAN LINDSAY:

Pearl, and then I'll pass it over.

DR. KAMER:

Harvey, how do you counter the argument that the income tax is an unstable source of revenue over the course of the business cycle? Let's say we go into a recession and people's incomes drop or someone loses a job, how do you make up that revenue?

MR. LEVINSON:

Well, first of all, the school districts •• we haven't talked about whether there should be any review of the school district spending when the economy dips. You may •• you know, a school district is guaranteed all of their tax revenue, period, they're guaranteed every penny under the property tax. That's why most of the school officials are not happy about this idea because the property tax is truly stable and if someone doesn't pay Nassau County pays the rest; if you don't pay it's paid by someone else. So the question is will it be unstable. Yes, it will change from year•to•year and that's why it requires a lot of further economic study to see what program would have to be put in place. And my initial suggestion is whatever we do, each school district will have something now that they've never had before, a reserve fund before it started. When we calculate how we're going to fund the schools, we must include a bucket of money because something is going to go wrong and something goes wrong, for example, there may be a loss of income tax revenue or some other project that the school needs money for. Right now the school districts can only keep 2% in reserves, this program would have a substantially larger reserve account but it, in my opinion, should require the review of whether you can dip into that. And I also

believe that before the school district budget goes out to vote, it's too late for the Comptroller to come into Wyandanch and saying four years ago they did something wrong; dammit, at the time they're working on it, there has to be professional people looking at what the school district has done. There is really no review other than the voters voting on the budget, but there is no sophisticated analysis. Are the budget numbers real? Did they do a good job? Is the school district competent to run their business practices? All of these things now are completely under the radar screen. We learned in Roslyn some of the stuff has to surface, and I give credit to the Comptroller but it's kind of too late to do it three years later. I think we have to have a review now. So the question is it's not simple and if the system wasn't broken I would not say to fix it, but clearly it's broken. Next question.

CHAIRMAN LINDSAY:

Michael?

MR. BERNARD:

I just wanted the commission members to realize that what Mr. Levinson is speaking about relates specifically to the assessment system currently in Nassau; Suffolk County is completely different. Suffolk assessing is done by each of the ten towns, eight of the ten towns are on a fractional assessment, only two towns are at a hundred percent, that is Southampton and Shelter Island. The next closest town to a reval were Riverhead and Islip which were done in 1979, everybody else goes back to the 40's and 50's. So that there is some inherent problems and big differences in what you're looking at in the rates that Harvey has given us in the examples.

One of the major things is the difference in the class system. Nassau's got a homestead/non-homestead tax rate where homeowners pay a different rate in taxes for school, town and County than what commercial property owners do, that happens only in one town in Suffolk and that's the Town of Islip, every other town pays the same. The homeowner and the K-Mart are paying exactly the same rates in Babylon and Huntington and Brookhaven and points east, and I think that's important for everybody to realize before we go too much deeper here. Thanks, Bill.

MR. LEVINSON:

However, I think one of the thing that you'll realize is that more budgets went down to defeat initially last year in Suffolk than Nassau. You're not on a full market value system, so you have the same crisis that we have. Many people said it's because of the assessment system in Nassau County. You, with the exception of Southampton, are not doing annual reassessment, so your population is exploding with anger because they can't afford to pay the taxes, which doesn't, of course, answer your question. You have a different system and it has to be adjusted to you, but the bottom line is I think you all know that people pay different taxes, school taxes with homes that are reasonably the same value from community to community. So you have the same problem, it somewhat may be easier to fix because you don't have a class system and you'd have to change fewer laws, but you have the same problem.

MR. BERNARD:

Absolutely.

MR. LEVINSON:

People with the same income level or similar income levels with the same value homes are paying wildly different school tax rates depending upon where you are. Now •• and those tax rates are high.

I just wanted to bring to your attention, just completely at random, a home on Denver Road in Wantagh •• this was the way I used to deliver newspapers too many years ago, I remember •• seventy•four hundred dollars in school property taxes on a home valued by me at \$526,000, that does not include the town and general taxes. When you add them all together, you're talking almost \$12,000 in property taxes on a very middle income home. So we're at the breaking point. Next question.

CHAIRMAN LINDSAY:

Bob?

MR. LIPP:

Yes, about the pooling issue.

MR. LEVINSON:

Which issue?

MR. LIPP:

Pooling of taxes.

MR. LEVINSON:

Yes.

MR. LIPP:

There are two parts to my question, one having to do with the income tax, the other having to do with non•residential or commercial taxes. With the income tax, it appears that you've done some sort of analysis where you wouldn't have to worry about let's say a wealthier district losing money and that would be •• and I'm not making a value judgment of whether it's good or bad, but from a political point of view you get those districts yelling and screaming. I'm assuming what you're talking about there is you've done a brief analysis but there's more detail that needs to be made, for instance, what sort of exemption, what sort of tax rate, that kind of stuff. And the second part relating to the non•residential, property pooling that, there have been discussions about that for years and arguments for that and I think obviously the big sore point with that, not allowing that to go further is because you'll get, for instance, a particular school district that has a lot of commercial property and therefore the residential doesn't pay that much, whereas in others it does pay quite a bit and then pooling it once again you would get furor from school districts that have commercial property. So I was wondering what your thoughts were on that.

MR. LEVINSON:

Well, this is not a marketable approach. One of the things that you should be aware of, the money that is collected •• and I'll use a local school district like Woodbury•Syosett, close to your borderline •• all of the money that would be collected in Woodbury•Syosett all belong to the Syosett School District.

One of the arguments against an income tax •• and assessors around the country have done this, I've noticed •• they run into a buzz saw when they

take money from one community and try to give it to the other community. There's no way you can explain this why the people in Wantagh should give their money to the people in Levittown. So this is not a Robinhood approach, the money stays within the school district.

Now, with regard to the pooling, the •• it would be that the entire tax base of the County, Nassau county, would be shared with every school district. It isn't any more complicated than that, that everyone would get a piece of the pie but you would have to develop a formula. And I think in order to make it sellable, the community where the commercial property is should get a disproportionate amount of the benefit, not all of the benefit, but if you're talking on a County wide basis they would get more.

Now, when I said, this somebody who lives in Great Neck says, "Well, we have all this business and we have to deal with the business," but the people in Great Neck love the business because unlike {scrawl}, Great Neck is a village, it increases the value of everyone's homes to be able to walk to services. So the commercial property is welcome in Great Neck and they say, "Well, why should we share it," but I say, "Wait, you're going to get a piece of Roosevelt Field, you're going to get all that beautiful property in Manhasset, it will be distributed," and I think the system will be fairer. But what •• if in theory this commission in Albany goes and somebody from this room gets appointed to the commission, it would be very helpful to discuss whether we should do a pooling of the taxes.

The one thing that seems to resonate with the public wherever I go, they all like pooling because they don't live in districts with high commercial property. Your people will get somewhat nervous about it until you convince them that the bottom line is that they will not be hurt. By the way, if you do decide to back any of this, one of the things that I learned from Nassau County is never change a system dramatically overnight, everything has to be phased•in and tested.

I could say I have a good understanding of this, but you're going to miss something. So Senator Bonacic in Albany, his bill is to create an income tax, and I give him credit for this idea, to phase it in over five years. The first year 20% of the school district will be paid by income, 80 by property, and then it will go down over five years; that at least will work out the bugs.

The negative of his plan is he wants the school district to vote by a vote of the public whether they want the income tax. I think that's courting disaster because you'll have different rates and people may be moving from one community to the other because of that, so I think it should be adopted by State legislation to create an alternative funding source. And that's what we're talking about here, is changing the way we fund schools from primarily property tax to overwhelmingly, if not entirely, an income tax.

CHAIRMAN LINDSAY:

Gary.

MR. BIXHORN:

I'm just having a little trouble figuring out how to operationalize your idea. The school district, the school board, let's assume we have a competent school business official and you have a school board that's paying attention to the budget that they're presiding for the sake of argument. The school board establishes a budget based upon the needs of the students in that school district that they're responsible for, and then there's going to be some commercial property tax that comes in to the district and there will be some other miscellaneous small revenues I assume. Then there is a uniformly established County wide income tax rate. Now, if you apply that rate to the income, the total income wealth in that school district and that rate doesn't generate enough revenue to fund the district budget, how is the shortfall made up?

MR. LEVINSON:

The shortfall will be made up in many ways, some successfully maybe, some unsuccessfully. But the biggest way it will be made up, the STAR money, which in your County probably represents three-quarters of a billion dollars I'm going to guess, and the State aid combined will probably be a bucket of money of about a billion plus dollars. Now, where is that money going to go, that billion plus dollars? That money has already been spoken for for Suffolk County, but many of your districts with the income tax will generate enough revenue to support an income tax, some districts will need some help. The districts that need some help will get the money from the already budgeted STAR money and already budgeted State aid.

Now, Albany also may have to come into the picture, because if you follow what's going up in Albany, you are hearing now comments that the schools should pay •• the State should pay more of the school budget. So the other alternative, in addition to a local school income tax, the New York State income tax could also additionally fund the schools based upon their income.

You know what the most •• the best argument, by the way, against property •• this system is? One of the absolute best arguments is that people cheat, people cheat, they don't file honest tax returns. That to me is the biggest drawback to this program. What are you going to do •• and I'm not going to criticize the plumber or the electrician who's in private industry and takes cash and doesn't declare it; does that shock anybody? As a matter of fact, the biggest problem that we have in taxing jurisdictions is not so much the assessment system but the cash economy. The cash economy is what is creating so many problems, probably a third of the economy is cash.

Now, I was the Chief Assistant DA in Nassau County. I can tell you this, in Nassau County it was almost unheard of to prosecute anyone for income tax evasion on the State level, and I am confident that Suffolk County also prosecutes few people for cheating on income tax. There are very practical reasons for this. The State income tax rate is very low, so even if you win a case or you prosecute someone, what the person has stolen and you can prove may not be a lot of money. But I'm a big believer of the criminal justice system serving as a deterrent and I tell you, you march some private contractor out of the courthouse with handcuffs on for not •• for taking cash •• and you know what the problem with the cash economy is? It is so widespread that I went to a cocktail party recently and someone said, "What business are you in?" "Well, I own a candy store," "Oh, that's a great business, you don't have to pay taxes," and I'm listening to this. Then a contractor comes into the home and says, "Well, if you pay cash it's 2,000, if you pay by check it's a different rate." I said, "What's going on here?"

We have to deal with this problem. We cannot not have an income tax

because so many people cheat. And my partial solution is the DA's Office would get extra revenue in Suffolk County because the assessment system would be so much leaner, it would be so much less expensive to administer that we could give more money to the prosecutor's office. So that's a long way •• a little winded how I got to answer that question.

MR. BIXHORN:

I just want to try it one more time. A very poor school district right now is heavily State aid dependent; a poor school district might get 70, 60 or 70% of their total income from the State aid.

MR. LEVINSON:

Correct.

MR. BIXHORN:

That same district probably has very low income wealth per resident; that's a school district that with this uniform rate is probably going to require this bucket of money to be at least as large, if not larger, than the existing State aid payment to the school district, probably larger.

MR. LEVINSON:

That is correct. Well, you know, first of all, I think what we have to do, at least from my perspective, is keep an open mind and that's why we need Albany's help to run the numbers.

Now, let me tell you where there's more money. And if you think I've stepped on a hornet's nest, I'll give you the ultimate hornet's nest. Right now, if you're the Superintendent of Schools from •• what's your school district.

LEG. NOWICK:

Smithtown.

MR. LEVINSON:

And the person retires, and let's supposing his State pension is \$100,000, it's probably going to be more.

LEG. NOWICK:

Absolutely.

MR. LEVINSON:

How much of that \$100,000 does the Superintendent of Schools, or any government official including some of the people in this room, including myself, how much State income tax do you pay?

MR. LIPP:

Zero.

MR. LEVINSON:

Zero, okay. So I'll give you the worst case scenario. The School Superintendent makes \$100,000, pays no State income tax; he collects between •• he and his spouse, probably \$40,000 now and growing Social Security, that's up to 140,000. Then he and his wife or spouse can take \$20,000 each out from a 401K, we're now up to about \$180,000 of income; how much of that is taxable in New York State? Zero. So if you did the State income tax system this would not work, because they have excluded so much income that the rate would have to be higher. So my plan is it would be based upon the Federal adjusted gross income which would produce the rate probably below three and a half percent because so much would be in there.

Also, you would have to have, and I've spoken to Bill about this, a plan that some people one way or the other, even on a Federal adjusted gross income, are going to show very little income. There has to be a harmless clause that says notwithstanding anything to the contrary, you will pay a percentage of the fixed value of your home to ensure that you can't get into a situation where someone pays zero taxes like that School superintendent or someone who just cheats and has his Federal adjusted down so low. So you have to have some plan that the people in Southampton who don't live in the homes continue paying property taxes and people who cheat still, if it comes back to paying pennies on the tax, it can't be less than; I don't know what the less than is, but there would have to be a less than in there to ensure that you don't encourage people to come up with a zero taxable income.

CHAIRMAN LINDSAY:

Lisa?

MS. TYSON:

Well, first of all, we commend you for thinking outside of the box and taking the income tax to the next level of discussion.

MR. LEVINSON:

Thank you.

MS. TYSON:

One thing that you said that's quite important that we really see is that the State should be paying more for education and should be picking up that cost, that would then be coming out of the income tax.

You know, looking at this whole system, we wouldn't need to do what you're talking about if the State did pay a much larger share. So, you know, would you be supportive of such a thing like that is my first question.

And my second question still goes to the previous question. We have real concerns about the poor communities, the poor school districts, the Wyandanch, Brentwood, Central Islip; how are they going to do this? The STAR •• first of all, in the political world, the STAR exemption might be taken away from us and we might not have the authority or option to say, "Well, let's pour it into the poorer school districts." So, you know, those are basically the questions.

MR. LEVINSON:

Okay. Well, the first part, I lost ••

MS. TYSON:

The first question is, you know, if the State was to pay a much larger percentage ••

MR. LEVINSON:

Oh, okay, the State. Here's the problem with the State income tax, why I feel why a County income tax is a better sell. If you did •• if you stopped

school property taxes and went to a State income tax, the State income tax rate may have to go from 7%, thereabouts, to 11 or 12. The rate will be advertised around the country, New York State has now gone crazy, they now have not only a high school income tax, we've got the highest State income tax in the country, and that may be a disincentive to do it because the rate is going to have to be higher.

Also, New York City, as you know, has a city income tax. How are they ever going to sign on to a plan when they •• unless they, you know, they get this money. So I think if you if you had a school property tax, it ended and you replace it with an income tax, it isn't increasing the school •• the State income tax, but rather we know we have to pay property taxes and we know we're going to pay less, so everyone realizes they're going to have to pay something, no one is going to think you have a zero. So I think doing it locally may have the advantage of making it more understandable and less contentious than raising the State income tax to 11 and 12%.

With regard to the Wyandanch situation, could it be any worse? Could the school districts be any worse? Have you been •• oh, you have. I've been in the Hempstead School District, it's not a pretty place to be in. I did mentoring in the Hempstead School District, the teachers try as hard as they can, it's really a difficult situation. What we take for granted in other school districts for our benefits they don't have. So if it wasn't broken and it wasn't a mess I'd say leave it alone, but I think it's broken and it's a mess, so I think we have to •• you say think out of the box, but I think you have to be brave enough, and by you people being on the commission, you've obviously at least demonstrated you're willing to listen. So that's my answer.

CHAIRMAN LINDSAY:

Tom?

MR. KOHLMAN:

Just, you know, one of the things •• I think the solution should be inherently simpler than the problem. And it appears to me, while you've given obviously a lot of thought to this, that it's very complicated and it's got all sorts of nuances and calculations and such.

You know, one thought that comes to mind on the commercial side; did you consider on commercial real estate taxes pooling and dividing by the number of students in a given district?

MR. LEVINSON:

Oh, yes. I mean, the formula •• one of the things that I just want to be candid with you, I don't have •• I don't suggest that I have an answer for all of the problems how to do it, I know it has to be pooled, and certainly the number of students per school district would be a large factor in how much comes back to the school district. Also, the special needs of the school district and also how much would be coming in by the income tax. So the formula, what you say is complicated, would be complicated, but can you understand today •• I can't •• the State formula that gives us the amount of State aid that the school district gets? It's beyond comprehension, it's based upon something known as wealth. In Westbury, because there are some homes in the Old Westbury Incorporated Village with high values, the Westbury School District doesn't do as well with State aid, only because 10% of the district or 15 lives in mansions so the formula is not fair.

So yes, what I would suggest to you, you're exactly correct. You're perceptive, it's exactly what you have to do, you have to start thinking how you're going to pool all the money. But we've never thought about this because we never had to because all the money just went to the district or the school where the property was located and that was it.

CHAIRMAN LINDSAY:

Fist of all, to follow•up on what you said, Tom, and I agree with Harvey. Myself and Mr. Sawicki had this discussion after the last meeting about how complicated the school aid formulas are and that, you know, the Legislators that make it up, there isn't a whole lot of them that understand how the formulas are created and assessed and whatever. So it is a complicated situation, either system.

I want to go back, though, to how we fund the students. We talked about one rate Countywide or bi•county wide in terms of income tax. Would individual •• would we fund students at the same rate per pupil, or would that be up to the school district based on the amount of income they can

generate within their school district?

MR. LEVINSON:

I think it would •• well, again, that's left to another day, I suppose. But the school district knows based upon last year's income levels •• let me just go back.

When you fill out your State income tax return, notice there's a little box on the corner, you have to put in three or four digits, those are the school district numbers. So they know how much income is coming to your school district, takes into consideration all of the deductions which I'm saying maybe shouldn't be applied. So they know what's coming in so they know how much they're going to get by the income tax based upon last year's numbers. They also would have an indication of how much State aid they're going to get. What I didn't say, which is another contentious problem, should the school districts have the right to take a special vote to increase their local income tax rate unique to the Great Neck School District to provide French tutoring in the summer before the kids go on their field trip to Paris? Should they have the right to have a right to buy handheld computers for everybody in the school? Many of the people are very nervous about what I'm saying, but they would be less nervous if they thought they could vote to impose additional taxes to make up the shortfall, because they're used to giving lots of benefits; that's not necessarily a negative, but they are used to giving these large benefits.

So it would be based upon how much you have in the reserve account, how much you would get by the income tax, how much you would get by the STAR, State aid, the additional State aid, how much more were coming in and then developing a budget on that. It's interesting questions. If you went to an income tax, does the school still decide on their budget?

Dr. Bernstein, who is the superintendent of Schools in Valley Stream, has written extensively on this in Newsday and says there's only three ways out of the mess. A massive amount of State aid which is not going to happen, he had a proposal for an income tax and he feels that that is the best way to go and he feels his proposal is, similar to mind but different, that each school district would get a fixed amount of money per pupil depending upon

the needs of the community and the balance would be raised by an income tax. Now, he speaks to a State income tax but it could also be a County income tax. So all of these things are on the table. But the question that this commission has to decide, is the basis of funding schools based upon property tax the way to go? And if it is, then we'll just continue the way we're going now.

CHAIRMAN LINDSAY:

Okay. And I just have a couple of comments, the question about cheating. The underground economy, if everybody paid taxes, our tax bills across the board, from Federal, State, local taxes, would all be much lower than it is. You know, I don't know how to cure that problem. But also the observation that the illegal apartments is a form of cheating in real estate taxes and that is widespread through all of our communities. So I don't know whether one balances the other, but it's prevalent in both areas. And I do agree that if this discussion really became serious, at a minimum the only way that this could work is at least on a County bicounty basis; you couldn't have individual school districts enter into it and others, not •• I don't think you could have the one County bill, I think both Nassau and Suffolk would have to ••

MR. LEVINSON:

Right, and I think unfortunately ••

CHAIRMAN LINDSAY:

•• enter into it together.

MR. LEVINSON:

I'm somewhat embarrassed that Nassau County has been saying that they have no consensus to even consider it or to become involved. So it might be nice if you would reach out, because I can't do it, to the Suffolk County Legislature, they're not as well organized as you folks are and I think the credit goes to you two folks, but the bottom line is we have to change •• we have to get them to think about this issue.

CHAIRMAN LINDSAY:

Okay. Bob Lipp has another question.

MR. LIPP:

One more question.

CHAIRMAN LINDSAY:

And then anybody else.

LEG. NOWICK:

I just would like to make a comment.

MR. LIPP:

Just from an economics point of view, I'm not sure what the trade-off is and I don't think you would put an edge on this one, too. But typically if you do a tax like this locally, if you're only looking at the income tax and let's ignore the property tax, which you can't ignore obviously, but just for the point •• you're approximately increasing the income tax by 50%, in other words from say seven to plus three and a half, and that will increase cheating and will have an adverse economic effect. And studies show that the more local a tax is as opposed to widespread, then the greater the disincentive is, and that's holding fix the property tax. Obviously we're lowering the property tax big time there, so that assumption is not a good idea. The problem that I have is it's not clear in my mind to what extent that negative would be offset or would be an actual positive resulting from the decrease in property taxes. If you can figure that one out, then maybe I might be supportive of it.

MR. LEVINSON:

I mean, from an economic point of view, that's a presumption, that's a presumption that maybe would be, but I challenge it because I believe that if the tax rate is low enough and we include Federal adjusted gross income and the rate say is 2 1/2%, I think the incentive to cheat on a modest tax is less than one that is much higher.

Also, I think everyone that's thinking about cheating, they know they're not paying any school taxes anymore and there has to be •• and if they do cheat they will get caught because we're going to have, notwithstanding you've got a million dollar home and now you're showing no income? You're living in a million dollar home. And we see people applying for low income

exemptions in million dollar homes and how are they supporting themselves? They have sometimes these weave of corporations and they show a loss. So •• and when I first started to talk to Bill about this, one of his major concerns was that people don't get away with paying no property taxes and no income tax.

So I think you can work out a system that can do this, but again, as I said, it should be trended in slowly and it should take some time to do. Lynne?

LEG. NOWICK:

Yeah, I always had a concern, and you mentioned it a few minutes ago, if there is a budget, do the people still have an opportunity to vote on the budget. I would think that if there is a budget and there is a certain amount that each school district can spend, I think that the right for a vote should still be there because maybe the taxpayers would tell them to spend less. You don't have to spend the entire amount just because you have it.

MR. LEVINSON:

Yeah.

LEG. NOWICK:

But with that in mind, I'm always a little bit upset about the fact that a school budget vote, and I know this may not be a popular thing to say, but a school budget vote is in May; nobody goes and votes in the school budget and you know that as well as I do. Why couldn't that vote be on Election Day? A lot of people don't vote on Election Day, but certainly more ••

MR. LEVINSON:

It could be, but you have to change the calendar. There are all these special districts, the Fire Commissioners and all that, they vote on the third something or other in December or July. In my opinion, there should be either one Election Day or two Election Days.

LEG. NOWICK:

It's incredible.

MR. LEVINSON:

Yeah. I mean, it's hard to get people to vote.

LEG. NOWICK:

And then they revote.

MR. LEVINSON:

Right.

LEG. NOWICK:

And nobody knows when the revote is.

MR. LEVINSON:

That's another big secret, right?

CHAIRMAN LINDSAY:

Okay. We have Lorraine who wants to make a comment.

MS. DELLER:

There is a Universal Revote Day mandated by the State.

MR. LEVINSON:

I'm sorry, a universal what?

MR. LIPP:

Revote day.

MR. LEVINSON:

Yes.

MS. DELLER:

The Universal Revote Day was last week, so it's not a secret; its one vote on revotes all through the State.

MR. LEVINSON:

Right, they changed that.

MS. DELLER:

Right. And it is a vote on developing a budget, it is not an election, so it is the one right, other than library budgets, that a community has the ability to work on developing a budget that is sufficient for what it believes it should be the link to its children.

MR. LEVINSON:

I don't think there's really much movement, I just raised the issue because I'm not deciding anything, whether the budget would continue with a vote on it or not. I agree with you, I think that it should not change, but there might be somebody who wants to just debate the issue. But clearly, people used to voting in the school budgets, only 10% of the people actually vote, but for those that attend that do vote, I don't think that most people would want to give up that right. So if that •• my position on it, I think we should try to maintain the vote.

MS. DELLER:

Okay. You have this plan out from two years, 2004, so you have ability to define parts of it. You've mentioned a modest tax.

MR. LEVINSON:

Rate.

MS. DELLER:

Two and a half percent or three and a half percent? I've heard both numbers; which?

MR. LEVINSON:

Well, what I'm saying is that we've done the numbers, Carl Laske is my Counsel there, we don't have accurate numbers from the State of New York how much revenue is coming in from each school district, so we have to estimate. And we estimated that a tax rate of about three and a half percent would probably be a rate that would be close to what I think it would be. But it isn't •• it isn't reasonable to ask me because I don't have the numbers from the State, that's why any commission needs the New York State Division of Taxation & Finance to provide the information for both the adjusted gross income and the taxable income, and then you could work up

your numbers. So what I'm saying, I'm giving you a range that I would anticipate. But it's not like fixed in stone because I only had what we had like in the year 2001 I think.

MR. LASKE:

It was 2002 adjusted.

MR. LEVINSON:

We had the 2002 adjusted gross, the last we could find, so it's just an estimate, there's much more income coming in now than there would have been back then. The bottom line is I don't know what the rate would be, I'm estimating what it would be, but that would be the function of a commission or the Governor's commission or the Legislature's commission to develop the numbers to see what they would be. Because sure, you would want to know the rate before you would support it, but I'm only asking people to agree to at least investigate it.

MS. DELLER:

You mentioned STAR and State aid as being able to pull in the gaps, wherever they may be.

MR. LEVINSON:

Part of the gap, yes.

MS. DELLER:

Okay. One of the biggest bones of contention we have had on Long Island is the fact that through its distribution formula, the State views this region as wealthy. And we have been struggling, particularly in Suffolk County, to have both our Legislators as well as our media and public understand that our high taxes are most likely the direct result of inadequate State aid coming in to offset the high taxes within many of our communities.

MR. LEVINSON:

Yes.

MS. DELLER:

If not all. We have our •• we are far under funded in New York State to

begin with as far as education is concerned, it depends too much on local tax base.

Our income figures from this region are just about the same in proportion to our property wealth as opposed to the rest of the State. If our income wealth continues to have Long Island look as too wealthy who can afford the kind of distribution we believe is necessary in the formula, neither of which is written in stone, neither STAR or State aid, most likely that will dissipate. There is no •• nothing that says the State would have to continue to pay at the rate they are to begin with.

So my question to you is if indeed our wealth is over burdened and over taxed, because it's our contention, whatever you push down to the local base, no matter what you're taxing locally, if too much is expected of it, it is going to be inherently unfair. So do we have an income tax that still demands a higher tax rate down here because of the perceived wealth?

MR. LEVINSON:

Well, I think part of it is the •• not so much the •• the perceived wealth is one issue, but one thing is the cost of running the school districts, obviously it's higher in certain areas of the State because of teacher contracts and other contracts, and also the cost of energy and other supplies that the school district has. So there are so many variables in what a school budget would be.

I sense where you're going from that, this is an issue that maybe should be looked at very carefully, and I agree. But what I'm hoping is that it will be at least looked at and to examine it. I think that, first of all, it would open up the housing market to a lot of people because people would not be burdened with a tax escrow account for the school district taxes.

And, you know, when we talk about high wealth, just let me give you an example. Mayor Bloomberg lives in a townhouse in New York City, and I know it's a different world, but he pays \$73,000 in property tax. If we move his home to Hewlitt Bay Harbor on the south shore of Long Island, his school taxes •• not the town, not the County •• school taxes on a hundred •• on a 10 and a half million dollar home, try \$195,000 on. So, you know, when

very wealthy people are worried, I say to myself I don't know how much worse it can be than to pay \$195,000 in taxes, you can't even understand the number. And in Kings Point, it would only be 93,000 because their tax rate in Kings Point is much lower than Hewlitt Bay Harbor's school tax rate. So what could be more complicated than this or more stressful? It affects even the super wealthy that they are paying enormously high taxes. And look at the New York Times on Sunday and see what the numbers are for these multi-million dollar places in the city, they are pennies to what we are. They have income tax and they also have transfer tax and higher mortgage recording fees which give them an enormous amount of revenue.

MR. LIPP:

Better sales tax.

MR. LEVINSON:

Well, their sales tax is lower than ours because they don't even collect sales tax on the \$110 of purchase in New York City, totally free.

LEG. NOWICK:

Any tax?

MR. LEVINSON:

Nothing.

CHAIRMAN LINDSAY:

Harvey, can you stick around for a while?

MR. LEVINSON:

Yes, sure.

CHAIRMAN LINDSAY:

We have Mr. Mauro who wants to make a presentation.

MR. LEVINSON:

Oh, I'm sorry, I didn't see you ••

MR. MAURO:

No, I was sitting in the back listening, you were very informative.

CHAIRMAN LINDSAY:

I'm going to ask the audience if you can hold your questions for the two speakers until the end.

MR. MAURO:

Thank you. My name is Frank Mauro, I'm the Executive Director of the Fiscal Policy Institute, we have offices at Latham and New York City; Latham is a suburb of Albany.

I'm going to try to cover a number of things. I gave out two handouts, one is this sheet of paper, does everybody have this? And the other is a budget briefing book we do because it's got a lot of tables and graphs that deal with the issues we're talking about here, so I'm not going to try to go through all of this, but I'm going to go to selective pages of it that deal with the issues you're dealing with.

Let's go to the color-coded graph. There's copies back there if anybody •• if you want copies.

So, basically what this is is the result of what economists call an incidence study. It's not the nominal rates because the sales tax rate for everybody is the same, this is an attempt to say how much of someone's income do they pay in particular taxes. And this is a study of the New York State Tax System using 2000 economic data, 2000 income, whatever, and applying the 2002 tax law. So this was before the three year temporary increase in the top rate of the income tax, we increased our top rate of an income tax for three years, 2003, 2004 and 2005, and so this is for the tax system before that.

Basically what this shows is that the blue bars, the income tax, as your income gets higher the bars get bigger in percentage terms, that means you're not only paying more in income taxes but you're paying a higher percentage of your income, that's which economists call progressive tax; as your income goes up the percentage of your income that you pay and the tax goes up. Because even with a regressive tax like the sales tax, the red bars, the amount you pay goes up because you have so much more income,

but as a percentage of your income you pay less. So the red bars show a good example of a regress of tax, a tax where as income goes up the percentage of someone's income paid in that tax goes down.

So why is that? From economics, you probably remember a concept called the marginal propensity to consume, the consumption function. Now, let's say out of your first \$30,000 of income you have to spend all of it to live, but out of your thirtieth \$30,000 of income or your sixtieth \$30,000 in income, you don't have to spend very much to live, you can save it or invest it or take extra vacations or whatever, but you don't have to spend it. So same thing with sales taxable items, that as someone's income goes up they spend a smaller percentage of their income on sales taxable items and therefore they spend less of their income in that tax. So the income tax is purely progressive, the sales tax is clearly regressive. The property tax is also regressive, that's the green bars, but not in as an obvious way, it's only really regressive at the very bottom and top, in the middle it's pretty uniform. So if you look at the percentages for the property tax, it takes 4.4% of the lowest 20% of people's incomes, but only 1.6% of the top 1% of people's income. Why is that? It's because as your income gets into really high levels, your home value doesn't increase proportionately, you're likely to have a more expensive home but not proportionately more expensive.

Now, you would say why does the property tax hit low income people so hard, aren't they basically renters? Well, one of the things economists realize is that renters pay property taxes too, it's just that they pay them through their rents, they don't not pay a portion of the property tax. The debate among economists is what share of the tax is passed on to the renters. And so when an economist does an incidence study they have to make an assumption and, you know, some people think that landlords pass on almost all of the property taxes, somebody might say, "Well, they don't pass on any of it," you know, that's probably unrealistic. So the assumption made in this study is that 50% of the property tax is passed on to renters, that the renters carry half of that, so that's what that assumption is.

Now, our income tax used to be more progressive than it is now, we used to rely much more heavily on the income tax. So while the income tax is still

progressive, it's not progressive enough to make the tax system as a whole proportional. What would proportional mean? Proportional would mean that if •• you know, you could only guess at this because all these taxes work in different ways, but if we did have somebody who could do a good incidence study and the conclusion they came to, and some states come close to this. New York is not the only state with a regressive tax system, some states have much more regressive tax systems than New York has, but Vermont has over all a fairly proportional tax system. That would mean that on average people at different income levels are paying the same percentage of their income in taxes, that would be a proportional tax system, but when you have a mixed system like New York and most states have where it's a mix of regressive taxes like the sales tax and the property tax and a progressive tax like the income tax, then the question becomes how progressive is the progressive tax, how regressive are the regressive taxes and what reliance do you place on them?

Do you have •• is your progressive tax progressive enough to smooth out the regressivity of the regressive taxes? And our system is not, basically it's not a proportional system. But what's happened is we really cut our top rates on the income tax. And while •• just in the sake of speeding up, I'm going to jump to page •• even though I was going to start on some earlier pages, I'm going to jump to page 22 right now, we might come back to some of the earlier pages but we might not have time, so let's jump to page 22 to show what's happened to our income tax system in New York over the past 30 years.

When Nelson Rockefeller left office, we had a 14 bracket income tax system, rates going from 2% to 14%, graduated rates. What has happened since then under all three Governors since Nelson Rockefeller, the State had •• and those brackets went from 2% to 15%, the reason it says 15.375%, in the last couple of years of the Rockefeller/Wilson Administration and then Governor's Car's first year, we also had a two and a half percent surcharge, that's not 2 1/2% of income but 2 1/2% of the tax you owed, so that made the overall effective top rate 15.375%. So what we have done since then is we have eliminated brackets from •• brackets and rates from the top and the bottom, whereas we used to have rates going from 2 to 15%, we now have five rates but it's in a very tight range, from five •• the lowest rate is

now 4% and the top rate is 6.85%, so we compressed the bracket structure.

The other thing we have not done regularly, we only did a little bit, is we have kept basically the same dollar value income brackets that we had back when Nelson Rockefeller left office. So whereas at the Federal level the income tax brackets are indexed for inflation, the brackets change every year, the dividing line between where you pay 15% which is the lowest Federal rate and when you pay the next rate, they indexed their brackets so you don't hit the top Federal bracket now until a very high income level, something in the several hundreds of thousands of dollars. But you might have heard one of the candidates for Governor, John Fasso has been talking about the fact that you reach the top bracket in New York, a married couple with \$40,000 of taxable income, so the brackets have not been stretched out. So Fasso says we should stretch that bracket out. That's part of the solution but it's like a little part of a big problem we have, something we did, you know, fixing one little nick in this.

So what we did is we eliminated brackets from the top and the bottom and we didn't stretch the brackets out, so you hit the top bracket at a very low income. So what does that mean? That means that the next page, 23, what happens, if we had •• if we •• instead of, instead of cutting or eliminating brackets from the top and the bottom, if instead we had stretched the brackets out •• and this graph is for married couples, you know, because our brackets •• what we have in New York now which is very good, they don't have this completely at the Federal level, we have full income splitting, so that means the brackets for married are now double the brackets for single; so that's good, it eliminates a marriage penalty in the bracket; so this is for married, it would be a different graph for single. So by what we have done, this is comparing what we did to the alternative.

And what am I calling the alternative? If we had kept the brackets we had, the rates we had and stretched them out for inflation and had kept the personal exemption and indexed that for inflation, New York no longer has a personal exemption, some of you might now that from doing your taxes, you only have a dependent exemption, so if you're a family of four on the Federal income tax return •• mother, father, two children •• you get four exemptions, four personal exemptions. New York State •• mother, father,

two children •• you get only two, and they've been fixed at a thousand dollars since the 1980's, they have not changed. The Federal personal exemptions are indexed every year as well.

So if we had done that instead, instead of what we did, all the good changes like full income splitting to eliminate the marriage penalty, etcetera, but instead of eliminating rates from the top and the bottom, we had stretched the brackets out for inflation and indexed the personal exemption, our estimate is that all families with incomes below about \$240,000 a year would be paying less than they're paying now, the biggest savings would come at about 150,000 where the graph peaks. This shows how much more these people are paying, in other words because of this change people from zero •• well, it's really from about 18,000, I think where it starts, to about •
• we've been pretty good at the low end through the Earned Income Tax Credit, all the way up to about \$240,000 people are paying more. But because we've eliminated the 15, 14, 13, 12, 10, 11, 10, 9, 8, 7, we've eliminated all those brackets, the higher and higher your income is the better the system that we did adopt is treating you. So what we've done is we've shifted the income tax burden from the top to the middle.

Now, the ironic thing about this is this is going in the exact opposite direction of the income distribution. What's happening in our society, particularly in places like New York and particularly in places like New York City, we have great wealth, you know, huge wealth and we also have poverty and we have a diminishing middle class. So while our income distribution is going this way, our tax system is going this way on the middle. So this is •• this next point is hard to believe but it's true. If we had done this instead of what we did, not only would most people be paying less in taxes, but we would be collecting \$8 billion more a year in tax revenue because of where the revenue is. We would be collecting \$8 billion more a year than we are collecting.

Now, because we haven't had that eight billion, what else have we done? Let's go to page 42. What we've also done, and this is what really puts pressure on school budgets, is we've reduced the portion of school budgets that are covered with State aid. Our goal, 50%, we almost reached in the late 1960's, but we're now at about a 50 year low in terms of the portion of

school budgets covered by State aid. And while I know you're mostly concerned with schools, even though it's the County commission so you should be concerned with I think revenue sharing and County budgets as well, just •• I'm not going to take a lot of time on this, but just jump back to page 38 and 39 just for a minute and you'll see what's •• it's the same thing, it isn't just school aid that's gotten squeezed, cities, towns and villages have gotten squeezed more than the schools. The schools have actually done fairly well comparatively, but revenue sharing has been squeezed tremendously.

Revenue sharing, adopted in the early 1970's, said the State is supposed to share 8% of its revenue with general purpose local governments on a formula based on tax effort, ability to pay and need. And Governor Rockefeller's rhetoric at the time he signed it was so local officials wouldn't have to come to Albany year after year hat in hand, and the program worked for about a decade, from the early 1970's to the early 1980's when we froze revenue sharing and then in the fiscal crisis of the early 1990's, revenue sharing was cut more than any other major state program, from more than a billion a year to less than 500 million a year. The white bars are what the State should be sharing under the 8% rule, the black bars are what it is sharing.

Thirty•nine shows the problem with the way we divide responsibility for Medicaid. We don't weigh, the Federal government divides responsibly between the Federal and the State based on some measure of ability to pay, even though we from New York don't think it's sophisticated enough, at least there's some measure of ability to pay. We think poverty should be taken into consideration as well because New York is a high wealth state but also high poverty state, but we're treated the same as New Jersey and Connecticut in effect that are like our suburbs that have income levels higher than ours but poverty levels much, much lower. New York is the only northern state that has a poverty rate in the top ten in the United States; we're the only state in the United States that's in the top ten in poverty and the top ten in personal income; the only state that's close to us is California in terms of that bifurcation.

So we are really putting a burden on places like Buffalo. You know, we say,

"Well, Buffalo, that must be doing something wrong so we're going to put a control board on." I mean, it's different than Nassau County having a control board, one of the wealthiest places in the nation being fiscally irresponsible for a while. But Buffalo and Erie County, of course they could have done things a little better, but what I know from what research I've done is the fiscal problems they face are not entirely of their making, it is to a large degree because of the State taking this every tub on its own bottom approach, which might work in corporations, you might sell off on profitable subsidiaries, but we can't sell off Buffalo or Utica.

So let's go back to 42, since you're interested primarily in schools. What we say on the next page, 43, is that when STAR is taken into consideration, the State covers a larger share of public school budgets, but that peaked in 2002 and even that percentage has been declining since then. And more importantly from my perspective, you know, is page 44, that STAR is distributed in a very different way than school aid. The purpose of school aid is to make up for the differences in tax base. So if you think of it this way, New York State has a constitutional responsibility to provide education to all children, that's a State responsibility. New York State delivers on that by having laws on the books for 200 years that result in the creation of local school districts and saying, "Local school district, you have this responsibility," but it's a State responsibility delegated to local school districts.

And one of the things that becomes clear, it isn't by some magic that taxable property value is distributed among school districts in the same proportion as children or the same proportion as educational needs, if you weight pupils for poverty or English language learning or for special education or whatever. So you have this tremendous mismatch between the number of children and the educational needs that every school district has and their tax base. And except for New York City and Yonkers, because Yonkers is the one other place in New York State that has an income tax but it doesn't make up as much as Yonkers by their choice, they could be collecting more from it, it doesn't make up as much of Yonkers' budget as it makes up of New York City's. But basically, what State aid does is it's designed to smooth out the differences and ability to pay. It doesn't do it in a perfect way and as Harvey pointed out, it doesn't do it in a way that

anybody could understand why is that? Because rather than being a formula that people can understand, there's like 50 formulas that work in all different directions, they work at cross purposes.

Now, why would the State have that? Why would it have 50 different formulas that work in cross purposes and result in a situation where you might have two school districts in Suffolk County or Albany County that are seemingly very similar but they get treated very differently; anybody know why?

MR. LIPP:

I could venture a guess, but I'd rather you say it.

MR. MAURO:

Okay, because the formulas aren't allowed to run from year to year, they change the formulas every year. Why? Because there's a side deal that says New York City will get 38.86% of the State aid. Okay? Now, why is that? Back in the 70's when the Democrats won the majority in the State Legislature, there was a period from the mid to late 1970's until the late 1980's when the •• as an attempt to make the school aid formula fairer, each year the Senate Republican Majority and the Assembly Democratic Majority agreed that the share of the school aid increase that New York City got would be a little bigger than it got the previous year. It still had the disadvantage I'm going to talk about, but since the late 1980's that number hasn't changed, it's been 38.86%, that New York City gets 38.86% of the projected aid increase; this is what shows up on a computer printout, not what actually happens.

It isn't that New York City has to get 38.86% of the actual aid increase, they don't make •• it's what the formulas are projected to do. And so what happens each year, when the analysts figure out if we let the existing formulas work what would New York City get. They then have to figure out ways to add additional formulas or change existing formulas so they hit the target of New York City getting 38.86%. Okay? Since the late 1980's, it's been a little more complicated because one year the former Senate Majority Leader Warren Anderson from Binghamton negotiated a •• this was in '88 or '89 •• it could have been '87 but I think it was probably '88 or '89 ••

negotiated a school aid agreement with the Assembly Democratic Majority and the Democratic Governor and his Republican Conference refused to accept it because the solid Republican Delegation from Long Island said, "No, we want more."

So since then there has been another aspect of the shares. The only •• there's only two geographic areas that are protected from the shares agreement or hurt by it. New York City can't get more than 38.86%, they have to get exactly that, and the Long Island share is that the share of the aid increase that Long Island gets in any year has to be greater than the share it got the previous year; it doesn't have to be an exact number, but it can't be less than the share it got the previous year. Okay?

So take an example, this year what they added shows how it has unanticipated effects in other places. So they added this year •• I mean, not that we don't have enough formulas for distributing money or we shouldn't be putting more money through the basic operating aid or we shouldn't be simplifying it. This year for there to be a deal, they added a new aid formula for school districts in counties •• and Harvey pointed out the problem with averages in that it's not just this new rebate. What Harvey said is true of the STAR Program as well, it's just that you don't see it as much because it's not checks in the mail. But the STAR benefits vary in exactly the same proportions that he talked about these new rebates, it's just that they're a lot bigger.

These rebate checks will amount to about 30% of the STAR •• the STAR rebates. So the new aid program they developed this year, a new categorical grant program, a general operating aid was any County where the effective tax rate is above •• on average, it's above a certain amount, then school districts in that County will get a share of certain additional aid. So that helped Nassau which was the main purpose of it, Suffolk, Westchester, Rockland just missed, but who else did it help? It helped a lot of counties that don't have truly high property tax burdens •• on people because of vacation property. So it helped all the vacation counties because their nominal effective property tax rate is high because they have strong property tax base relative to the number of children. So it didn't bother them, as long as it served the purpose it was supposed to serve which was

to drive more money to Nassau County, so what of the unintended consequences on the rest of the State. So that's what results in this crazy quill where the formula is illogical.

Now, in terms of the questions that Lisa asked and some other people asked in terms of how do you combine tax reform with school aid reform? What the •• even though there's not an agreement on the level of this, both the defendants, that's the Governor, in the Campaign For Fiscal Equity Lawsuit, and the plaintiffs, the Campaign For Fiscal Equity group, they both presented to the court what in school aid parlance is called a foundation formula. Governor Pataki had appointed a commission chaired by Frank Zarb from Long Island and they called for simplification of this system that I talked about. They •• the Zarb Commission which the Governor appointed and CFE, sound basic education task force, both said the current system is not understandable, we have all these •• exactly what I said a few minutes ago, all these formulas work at cross purposes, we need to have a much simplified system, a foundation formula. And while I think CFE would have proposed greater simplification than the Zarb Commission, they both moved in that direction.

So what is a foundation formula? A foundation formula says you begin by figuring out how much each school district needs for a sound basic education. You don't stop them if they want to from spending more if they want to have more than an adequate education if you were mentioning some of the school districts, some of the additional benefits they provide to their children. The foundation formula doesn't stop a district on its own if it wants to do more and its voters approve of them doing more, but it says we've got to figure out how to ensure that everybody has a minimally adequate amount of money and we have to take certain factors into consideration.

So the •• I'll just jump to where we are now to give an example. The CFE presented one plan to the courts, the Governor presented another, the Special Masters that the court appointed, three former •• two former Judges and the Dean of Fordham Law School, former Dean of Fordham Law School,

this three-member panel that met when the State couldn't come up with a solution, they basically accepted with some slight variations the plan the Governor presented. They said there has to be a higher weighting for poverty; the Governor had proposed I think a 35% weighting for poverty, the Board of Regents uses a 100% weighting for poverty. The Special Master says, "Let's do a 50% weighting for poverty," and they accepted the other weightings that the State had recommended.

So with these weightings, this is how a foundation formula would work. Take a starting dollar amount, and in the plans that we helped CFE put together to implement the Special Master's recommendations based on the Governor's plan developed by Standard & Poors, is take about \$8,000 per pupil. You take \$8,000 per pupil, you multiply it by a weighted pupil count, and the weighted pupil count is your pupils weighted by poverty, 50% for poverty, 15% for English language learners and one point •• and 110% for special education, then you modify it by regional cost differences. The court and both sides in this litigation acknowledge that there's a difference in how much it costs to buy a teacher of equal quality in New York City or Long Island compared to Syracuse, that the cost of living is greater and it's more expensive, so you multiply it by a regional cost factor. So \$8,000, I think the exact number in the current CFE plan is like \$8,037, times your weighted pupil count, times your regional cost difference, gives you your sound basic education revenue requirement.

Then the next thing which gets detachment form •• and the court didn't do this, the court stopped there. They said the State's got to figure out how to do it and they said only for New York City, it's the politicians, luckily, who said, "We want a Statewide solution, we want to do this for the whole state at the same time, not for just New York City," because the Court of Appeals said the decision applies only to New York City. The court then refused to take the next step, to say how do we divide responsibility for this sound basic education revenue requirement between State and the local? It said, "We'll leave that up to the Legislature," in terms of how you divide responsibility.

There are two plans on the table now for dividing responsibility. The •• there's a group of several hundred school districts, mostly Upstate, called

the Mid-State School Finance Consortium. They would use a fixed dollar tax rate, they would say every school district has to contribute 50 •• I think the number they used which is probably too low right now, \$15 per thousand of full value unless you can provide the sound basic education for less, say places with a lot of vacation property; if you can do it for less, that's fine, but \$15 per thousand. And then your State aid is the difference between what that generates and your sound basic education revenue requirement.

The group I've worked with, CFE's Sound Basic Education Task Force, we've used a more sophisticated formula where we have concluded that you should take not just property wealth into consideration but also income. And so the proposal that CFE has put forward says you take that sound basic education revenue requirement and you divide responsibility between State and local based on a State aid ratio that takes both property wealth and income wealth into consideration. But in both cases they're saying you need to have some fair, Statewide way of dividing responsibility and you need to have a formula that people understand. Because what this is doing is this is replacing the 50 formulas with basically one and, in effect, what this does is Statewide, even the plan the Governor proposed to the Legislature •• I mean, to the Special Master, said that •• and they didn't have data for all the school districts in the State, they said that 177 of the 639 districts in the State needed to increase spending greater than the rate of inflation, this is what the Governor presented. Despite that fact, he then presented a plan to the Legislature this year that would have increased the STAR rebates for school districts that limited their spending to 4%, so going directly contrary to what he presented to the court where he acknowledged that there were school districts that needed to increase spending faster than the rate of inflation.

The Special Master's weightings changed that to say that 477 of those 639 districts had to increase spending during a phase•in period greater than the rate of inflation. For Suffolk County, that would be aid to 54 districts under the Governor's plan didn't have adequate resources, 24 of 54 districts under the Special Master's modification of that, and under CFE's analysis done by two education consulting firms, they were able to spend more of the school districts, they said 26 of 66. So there are some school districts that are already spending more than the minimally adequate level and that, as far as

I'm concerned, is good, that they want to provide a higher quality education, but that has to be subject to voter approval or whatever. But there are still many districts that don't and one of the ironies of this is that many of the districts that spend less than the sound basic education revenue requirement have higher effective tax rates because they have weaker tax bases. So even with higher tax rates and even with more State aid, they still cannot provide as high a quality of education as other districts and many of them, the numbers I gave, cannot even provide an adequate education.

So I think that what we need to do is to, you know, be able to do more than one thing at a time. We need to realize that we've got this mismatch, that we don't have resources allocated by magic in the same proportions as children, so we have to solve that problem. But we also need to deal with the problem on page 42, that the State has been reducing its State aid, its share of education, thus placing additional pressure on the property tax.

Now, we've mentioned that there's a lot of room for fixing this because of what the State did to the income tax system. Why do I think it's better to do •• to increase State aid than to do an income tax for schools at the County level? I think counties should have an income tax option for County purposes, I think it's a more modest step. I think that there's a big concern about differences, you know, between geography. If we have an income tax in Suffolk County and we don't have an income tax in Nassau, or if we have an income tax in Westchester but we don't in Putnam, what is the effect going to be?

I think that it's very unlikely that we're going to get the right solution, but also we're not going to get additional progressivity to the income tax. The best we're going to get is •• I mean, these are the options I think. The best we would get is a Yonkers type income tax. What a Yonkers income tax is, which picks up the progressivity of a State income tax but doesn't make it any more progressive, is the Yonkers income tax is a percentage of what you owe the State, okay?

So it's not a percentage of your income. The State law authorizes Yonkers to levy a surcharge on the State income tax up to 19 and a half percent, not of your income but whatever you owe the State. The highest Yonkers has ever levied that at is 15% of what you owe the State and they're currently

at 5%.

So that I think is the best we would get with a County income tax. And that's, you know, no more progressive and no less progressive than the current state income tax, but it's based on that. I think what you're more likely to get is a flat tax on all income. And if •• you know, a flat tax, if it was the only tax, that would be a proportional tax, but remember, our overall tax system, the income tax isn't the only part of the tax system, we have these various regressive taxes that we need to be smoothing out. And then we could have it even be less than flat rate. Harvey suggested something that was like the Social Security Tax where you only pay it up to a certain level; I mean, I don't know. That doesn't seem like a very sensible idea because, you know, the notion of income is that the more income you have the less that's needed to live and the more it can be taxed. And I think that we're more likely to have a restoration of progressive rates at the State level, maybe not as much as I would like to see but a move in the direction of reducing the burden in the middle, increasing the burden at the top and generating additional revenue at the same time. But we're more likely to get the •• to make the income tax more progressive if it's done at the State level.

Is there room for making the State income tax more progressive? When New York had a top rate of 15.375%, New Jersey's tax might have been 2%, Connecticut didn't have a tax except on interest and dividends; now the top rate in New York state is 6.85%, the top rate in New Jersey is 8.97%. I don't think we see a lot of migration patterns in the New York, Metropolitan area of people moving from the New Jersey suburbs to the Connecticut and New York suburbs. Even though in New Jersey the property tax rates are as high •• you know, in the suburban counties are as high as they are, in the New York suburban counties and now the income tax is higher. So I think from a competitive perspective, we have the room for increasing the income tax rates at the State level.

I think we need to keep balance in the system. One thing that a lot of people say, and a lot of •• and Harvey said this and I think even though I don't agree with it, I can understand the perspective •• saying that we can't have a mixed system, we've got to either go •• we either have to go to the

income tax completely or not at all. Now, I don't agree with that because I think balance is important, but if that's the position you're going to take, then I think taking schools, you know, where it's the lion's share of the property tax, to move that entirely, if you did this Statewide to local income taxes I think would create real problems.

Another thing that you need to realize in doing an income tax at the local level, one of the things that New York State does with its income tax, as you might •• some of you might know from the debate this year, things the Governor said, is New York State gets a large share of its income tax from high income earners. But one of the things you might not realize is how much of its income tax it gets from high income earners who live in New Jersey and Connecticut. Because even though New York City doesn't have a commuter income tax anymore, the New York State income tax is on everybody who earns income in New York. So if you live in New Jersey, you pay your •• and you work in New York, you pay your income tax to New York first and then you take your New York income tax payment as a credit against what you owe New Jersey in calculating your New Jersey income tax.

And just to use an example from 2000, our income situation peaked at 2000, declined in 2002 was a low point, and now the top has accelerated to levels that people said would never happen again when the market declined in 2000. But in 2000, for non•residents, 18% of non•residents had incomes over \$200,000 a year, but they paid 69% of all the income tax of non•residents, about \$2.2 billion a year. And the income tax overall, non•residents, people who are from primarily New Jersey and Connecticut but not entirely, non•residents pay 17 to 18% of our net income tax collections. So doing an income tax at every county in the State would not add to •• the sum of the parts would not add to the total of doing an income tax at the State level because you would not be taxing people who I think should be contributing as much as anyone else, the people who don't live in New York but have relatively high incomes and have •• you know, benefit from what New York, primarily what New York City has to offer as much as anyone in the world.

So I think yes, we should be reducing the pressure on the property tax, we should be reducing the pressure on the property tax to fund schools. We

should be relying more on the income tax, but I think we should simultaneously be doing that in a way that levels up the resources available to the needy districts and doesn't create additional problems.

Just one additional thing before I close. If you go to page 50 and 51, just in closing, in terms of this gap, there's a group in Washington called the Education Trust, they do a study of the 50 states every year, this is the two most recent years that they recently, most recently released studies of. They calculate the spending gap per pupil in high poverty and low poverty districts, and there is a gap nationally, but the gap in New York is the greatest of any state in the country, and that gap just in the last •• between the last year and the year before that, that gap moved from \$2,615 to \$2,930, the difference in spending per pupil in high poverty districts and low poverty districts; and you can do the same thing if you did high wealth, low wealth.

What we did on page 51, the Governor this year proposed additional STAE benefits for school districts that held their spending to 4% a year. So we said if the Governor's incentive that he wanted the Legislature to create was successful, if it was successful in having all school districts limit their spending growth to 4% a year, what would that do over time? Well, if you're spending \$30,000 per pupil, 4% is a lot greater than if you're spending \$15,000 per pupil. So it makes the gap greater and greater every year, and so this runs contrary to a solution to the CFE case.

And so I think that we would like to see, and it's possible at the same time to make our tax system fairer, to reduce pressure on the property tax, to increase the use of the income tax but to do it in a way that doesn't give up a lot of revenue, that makes the tax system more progressive and helps solve our school funding problems. Thank you.

Applause

CHAIRMAN LINDSAY:

Thank you, MR. MAURO. Questions. Okay, I'm going to start with Pearl.

DR. KAMER:

I just want to make sure that I understand your position. What you're saying is we've reduced the progressivity of the income tax over time, we should restore that progressivity and use the increased income tax we would get to increase State aid to education thereby relieving the pressure on the property; that would be your vehicle?

MR. MAURO:

Yeah, it has to be done over time. I don't think we can •• I don't think that we should have, you know, huge changes in any one year. So I think that basically if you go back to my graph on page 43, what I'm talking about is gradually pressing down that hump in the middle and moving up the curve on the right-hand side.

DR. KAMER:

And over what time period, would five years be ••

COMMISSIONER MORGO:

Yeah, I think •• I would like to see five years, I don't know if that •• if you could do this all over five years, but I would like to see that.

DR. KAMER:

Okay, thank you.

CHAIRMAN LINDSAY:

Lisa Tyson.

MS. TYSON:

Thanks. So one of the charges of this commission is to come up with a report of what we're recommending. In our first meeting we went through a list, a laundry list of ideas and one of the first items was to increase State aid for education. I think the overall analysis of that is that, well, we've tried this in the past, every single year we try it over and over again, we haven't gotten anywhere so we need to come up with something new.

There seems to be a lot going on in Albany right now to address this problem, and the situation has changed. So if this commission could come

with an option like what you're saying as to increase the aid for education, lowering property taxes, do you think that the momentum that we could bring to this issue would be a public move on a statewide level and it would be a good outcome of this commission?

MR. MAURO:

Yes, of course. I think that calling for not just increased state aid but substantially increased State aid, recognizing that many districts have •• that all districts face inflationary pressures. So one of the things that the State School Board Association has wanted to see in the modification for the CFE plan is they want •• they've talked about seeing a minimum increase of one or two or 3% per year in everybody's State aid, so there's a regular, dependable increase. But I think that there has to be simplification and increased State aid over time.

There have been a few commissions like yours, one in Nassau County and one in Tompkins County, and one of the things that I've always thought •• I mean, neither one of us came to this conclusion. I think the conclusion of these commissions was, well, if we can't solve the school finance problem, then it isn't worth doing an income tax at all. And I think that if you can test out the idea in a way of a County income tax in a way that doesn't have the problems of the disparities among the school districts within the County and can reduce the pressure on the property tax a little bit, that would be a good step forward also. Not that anybody is thinking about this, but I think it would also be good to see counties and maybe cities over a certain •• maybe all counties or all counties over 50,000 and cities or all cities over 100,000, counties, large counties and large cities being given the option to have a piggy•back income tax like Yonkers for their own purposes, not for someone else's purposes.

I think it's •• all the questions that would be involved in a plan that would adopt an income tax at a County level for school districts but have the income generated in the school district be dedicated to the school district and trying to figure out how to deal with that, I think that that is very difficult. I think a Yonkers•type income tax for a city or County's own purposes is a relatively simple step and it's a step in making the tax system a little more progressive, maybe not as progressive as you want to make it,

but it clearly makes it a little more progressive. And what I never understood is why making something a little better isn't worth doing and it's only worth doing if you can make something a lot better, but then when you make it a lot better then you've got all these economic concerns you worry about, will high income people leave or whatever.

CHAIRMAN LINDSAY:

Robert Lipp?

MR. LIPP:

One thing that the commission did discuss that relates to the issue of making the income tax more progressive is a much more generous circuit breaker program. I was wondering if that •• for the people in the audience who don't know what I'm talking about, basically what that is is if your income is low enough you would get a tax credit on your State income tax. That lowers your tax liability by the entire dollar amount of the credit related to how much you have to pay in State income tax. So that would make it more progressive at the lower end, obviously.

MR. MAURO:

Right. And also as a safety •• the reason it's called a circuit breaker, it's sort of a safety valve on the income tax system. And you can also •• what Vermont does to make it •• to give it some of the characteristics of STAR where it reduces what you have to pay in the first place is they have •• while it's calculated through the income tax system, they have both •• you have an option of taking a prebate or a rebate that you can get, you know, a chip ahead of time based on your previous year's income, what you submit with your bill for paying your local income taxes and it reduces your local school property taxes and reduces what you have to pay.

The idea of a circuit breaker we discuss on page 47, because we talk about the problems of STAR. One of the problems with STAR is it treats people based on averages; to me it's really amazing that we could have something that costs \$3.3 billion and we don't treat people based on their individual circumstances. So what we have right now in New York, if I live in Schenectady and you live in Suffolk County and we have exactly the same income and exactly the same property tax base, because you live in an area

where more people have higher property tax bills on average than people in Schenectady, then you get a higher benefit than I do, and I don't understand how that can be justified. I think that a tax system has to treat people based on their individual circumstances, not based on County averages.

So I think that a circuit breaker does that because what a circuit breaker does is it says that if your property taxes •• let's take a percentage. The Assembly passed a bill this year where I think the percentage was too low. The Assembly passed a bill this year which said if your property taxes, your school property taxes exceed seven and a half percent of your income, then you get a credit on your income taxes of the amount by which it's over, but only up to \$400. Now, why did they have to say the only up to \$400 amount? Because a lot of people have property taxes more than seven and a half percent of their income, but by putting the \$400 cap on it, it sort of neuters the power of a circuit breaker. So even if you have to make the number higher, I think if it was going to be a true circuit breaker, it shouldn't have a cap on the dollar amount, maybe, you know, a cap on the first \$350,000 of your home value, you know, the amount by which your property taxes exceeds a percentage of your income. But I think even if it has to be a higher percentage than what the Assembly passed, I'd rather see it be with a higher percentage than with a cap.

CHAIRMAN LINDSAY:

Okay. Is there anyone in the audience that would like to make any comments or ask Mr. Levinson or MR. MAURO? Yes.

MR. CONTINO:

My name is Ryan Contino, I'm a student here, I'm President of Student government. My question is for you, Mr. Levinson. I was wondering, do you have any past comparable systems similar to yours that have been in operation?

MR. LEVINSON:

No. As far as I know, maybe Frank might know better, that I know of nothing that takes the nature of mine which is •• maybe I should have the microphone, which is based upon ending school property taxes. My feeling

is we don't end the school property tax and you do as Frank said, you have a situation where the schools will spend more because they now have an additional source of revenue. And the question is how can you control the spending in some way? So it seems to me that to eliminate is what the public will support, and I think •• although I understand that Rockefeller's tax rates were very high, I think there's very little political will to increase the tax rates to double digit increases and then maintain the property tax as it is, albeit hopefully they will go down, but they may not go down, they may just stay about the same.

MR. MAURO:

Yeah, one of the criticisms of STAR has the disadvantage that Harvey said, that as you increase your school spending and your tax rate goes up, you draw more money out of the State Treasury under STAR. The way STAR works, let's take a simple example, it's \$30,000 times what's called a sales price differential factor, for Westchester it's close to 3%, so \$30,000 times three, in Skenectedy we don't get any sales price differential, so we just get 30,000, but in Westchester you get like 90,000 times your school property tax rate. So the higher your school property tax rate, the more State aid you get. Under the foundation formula, if you want to spend more, you pay for it all entirely yourself. So I don't think that a foundation formula would have that disadvantage, I think STAR has that disadvantage more than the foundation formula.

In terms of whether or not anybody does that, I think Harvey is right, I don't think anybody in any other states have they done local option income tax to completely eliminate the property tax. What they've done other places is they've done local option income tax to reduce the property tax. So school districts in Pennsylvania and Ohio, they're not really income taxes, they're earnings taxes so they're not •• unfortunately not on investment income but they're on like wage income and business income. What they do in those states is they accomplish a slightly more diversified tax system, but it doesn't have the characteristic that Harvey is talking about of all or nothing.

CHAIRMAN LINDSAY:

Yes, sir?

MR. SALIMANDO:

My name is Scott Salimando. It seems the solution is in front of us, gentlemen, you're both traveling along the same path. My question to you is if they decide to keep a mixed tax system of both property tax and this income tax, can the property tax be kept at a flat level?

In other words, most people are saying look, if there's two such taxes, you know the law is going to go up and you know that we're going to get banded in the end. They're distrustful of having an income and a property tax unless they know the one tax will be fixed, whether that tax is fixed for the basic educational needs, that would be what has to be defined. But it would seem that would buy that, or the public might get behind it if they knew at least one of the taxes was going to be fixed as a base rate, would not go up. SUNY's would like that, and of course if the income tax comes into play there'll likely be more because then they wouldn't have to spend a proportional increase. That seems to be where we're going, but can it work is my question to both of you.

MR. LEVINSON:

Bill? First of all, I said to eliminate the school property tax, I never said to eliminate property taxes. The property taxes for all different levels of service, garbage, police, fire, all the things that we count on to run an efficient government, would be based upon a property tax. The property tax would be only paid for government services outside of schools. So obviously this is unique, it's different where you're just going to take the schools, and I know Frank says well, schools is a difficult one to start with but, you know, you go to the bank because you want to rob it because there's money in the bank, the school districts is what people are crying about, there doesn't seem to be this tremendous problem with County and town. However, those taxes could be lowered by stopping all these little individual levels of government and the town has one tax, the unincorporated tax for the entire Town of Huntington rather than have separate fire tax, a separate garbage tax and whatever.

So I don't know •• you know, I'm not •• I appreciate the comments, but my idea is not to eliminate all property taxes, just the schools.

MR. MAURO:

On the school tax, you know, as opposed to our plan which is a little difficult to understand where we divide the sound basic education revenue requirement on the percentage between State and local, I think what comes closest to your idea is the Mid-State Plan where for the overwhelming majority of school districts in the State, those that don't want to spend above the adequacy level, the rate would be fixed, you know, it would be a set rate and the State would pay the difference. But what I support which is in their plan is if you're going to do that, if a local school district wants to present to their voters that they want a supplementary investment and the voters of the school district want a higher quality education in the adequacy level they could do that. But the problem we have in New York State is so many places, the poorer places in the state have very high tax rates and still don't •• even with State aid, still don't generate the adequacy level.

CHAIRMAN LINDSAY:

Okay, last question.

MR. SPRINTZEN:

Actually I have two questions, two quite distinct questions.

MS. MAHONEY:

Can you state your name, please?

MR. SPRINTZEN:

David Sprintzen, Long Island Progressive Coalition. One is I'd like both of you to list exactly what you see and explain exactly what you see are the negatives with respect to a County income tax, we'll go with the negatives are and what the reasons are. And Pearl did suggest one before with respect to variations of the income and reliability; that's one kind of question.

The second is totally different; what effect •• have you looked at or have you thought about and can you explain to us what differential effect would come from the institution, in whole or in part, with replacing a property tax in whole or in part with a land tax which tax value of the land and not of the

improvements placed upon it.

MR. MAURO:

I don't know the answer to your second question. There were a lot of experts on it, what David is talking about with his second question is land value taxation. I think Pittsburgh is the largest city that uses it, a lot of places in Pennsylvania use it. The theory is that if you don't tax the value of improvements and people will not have •• that they will have an incentive to develop their property to the maximum economic value, that's the economic theory of that. There's lots of studies done, you know, and there's real experts on this subject. I don't know if it works or not, you know, I think a lot of people are very strong in their feelings on it.

One of the negative consequences of a County income tax •• I think if a County income tax is done at a modest level, I don't really think it has economic problems. And I think to me the example is Yonkers; Yonkers has had an income tax since the 19 •• when did they do this? 1980 •• let me get this right.

MR. LIPP:

In the 80's is enough.

MR. MAURO:

In the 80's, Yonkers has had an income tax since the 80's, since their second fiscal crisis. And I did an analysis a year or so ago based on the 2000 Census that between 1990 and 2000, Yonkers grew as much an income in property values as Nassau County which didn't have an income tax. So I don't think a modest income tax creates a problem.

My concern with the income tax completely replacing the property tax is it ignores balance. I think we can't go from one extreme to another, that the property tax does add stability to the system. I think •• I don't think that for something as large as schools that we should go from having too much pressure on the property tax to too much pressure on the income tax. So I would like to see a County option income tax, but I don't want to overdue it so I don't want to see too much pressure on the property tax.

And the other thing for school finance, they're not exactly the same as Harvey's proposal but in the early 1990's, Governor Cuomo and Assemblyman Tom DiNapoli and a few others had very active proposals for • and this was a school district, for a school district optional income tax. And even though Harvey's thing would be adopted at the County level, the revenue would really be at the school level. And I think it's really a diversion for solving the school finance problem because the disparities in income per pupil among school districts are as great or greater as the disparities in full value per pupil.

So it's just that it diverts attention from the real problem. I mean, I'm sure Harvey would be supportive of a good solution because he says the State should make up the difference, so that in effect is like supporting a CFE type plan or they should reallocate STAR, and I think that's good too. But you can't just say that, I mean, those are such hard battles that I think the idea of saying let's fund schools with a local income tax where the income that goes to each school district is what's generated by the residents of that school district changes so little, the biggest problem we face in school finance that I think it's diversionary.

MR. LEVINSON:

Just quickly, the County income tax I don't support because it only represents 15% of the tax bill. So you solve nothing if you change only 15%, the school taxes basically are 60 to 65%.

As far as the land tax, in Nassau county we do use a land tax, it has a tremendous amount of value. A home in Roosevelt, the same size home in Roosevelt versus Garden City pays much less tax, much less value and therefore pays much less County tax. But dammit, in Roosevelt, the people who brought the lawsuit against the County got screwed, pardon my language, because the people who lived in Roosevelt are the only ones left to pay the school taxes. And Mrs. Coleman, who was the lead plaintiff, she saved 50 bucks in her County taxes and her school taxes went up a thousand dollars because her home was one of the more valuable homes in Roosevelt. So as long as you have an unfair system, unless someone has a better idea, I think you have to recognize, you have to junk it and say the

value of a home can no longer be used to pay school taxes because the taxes are so high. When a 500,000 small home in Wantaugh pays \$7,500 in school tax and going up again this year, something is rotten in Denmark and I think we have to change the system.

MR. MAURO:

Well, let me just say one thing.

CHAIRMAN LINDSAY:

It's got to be the last word because our stenographer is almost out of energy.

MR. MAURO:

Energy and paper. I think that what Harvey said on the 15% is exactly the point I was making. If you can't reduce the •• if you can't shift 15% of the burden from the property tax and the income tax, you shouldn't bother doing it; I think that's a reason for doing it, that you have less of an potential economic problem.

CHAIRMAN LINDSAY:

Okay. We're going to call a recess until six o'clock where we'll have a public portion, we'll give Alison a break.

I thank you two gentlemen for coming and presenting to us. And to the commission, we have some sandwiches downstairs so you don't pass out. So we'll see you at six o'clock.

(*The meeting was adjourned at 5:23 p.m.*)

**Legislator William Lindsay, Chairman
Homeowners Tax Reform Commission**

{ } • Denotes Spelled Phonetically